



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, February 18, 2011  
8:30 a.m., AZ Time

The Arizona State Retirement System (ASRS) Board met in the 10<sup>th</sup> Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:36 A.M., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

### 1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair  
Mr. Tom Connelly, Vice-chair  
Mr. Chris Harris  
Professor Dennis Hoffman  
Mr. Tom Manos  
Mr. Kevin McCarthy  
Mr. Michael Townsend  
Mr. Larry Trachtenberg  
Mr. Steve Zeman

A quorum was present for the purpose of conducting business.

### 2. Approval of the Minutes of the December 17, 2010 Public Meeting of the ASRS Board

**Motion:** Mr. Steve Zeman moved to approve the minutes of the December 17, 2010 Public Meeting of the ASRS Board. Professor Dennis Hoffman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

### 3. Presentation, Discussion and Appropriate Action Regarding the CAFR

Mr. Corey Arvizu, Partner, and Mr. Neil Galassi, Audit Manager, Heinfeld, Meech & Company, P.C., presented an unqualified Independent Auditor's Report for the fiscal year ending June 30, 2010, on the ASRS financial statements that collectively comprise the ASRS' basic financial statements in the Comprehensive Annual Financial Report (CAFR). An unqualified report means the ASRS financial statements present fairly, in all material respects, the net assets of the ASRS as of June 30, 2010, and the changes in net assets for the year ended in conformity with accounting principles generally accepted in the United States of America. Mr. Arvizu and Mr. Galassi said the audit took 22 weeks of work. They expressed appreciation for the cooperation of ASRS staff.

### 4. Approval, Modification, or Rejection of Recommended Administrative Law Judge's Decision Regarding Ms. Martha Ann Yaeger's Appeal Regarding Retirement Annuity

## **Elections and Arizona Department of Administration (ADOA) Retiree Health Insurance Premiums**

Ms. Jothi Beljan, Assistant Attorney General, addressed the Board regarding Ms. Martha Ann Yaeger's appeal.

- Ms. Yaeger retired from the ASRS on July 1, 2006, and elected a 50% joint and survivor annuity option, and a level income alternative (LIA) option.
- The level income alternative option provides for members who retire prior to age 62 to receive a greater benefit in the early years of retirement in exchange for a reduced ASRS benefit when they become eligible for Social Security at age 62.
- In October 2010, Ms. Yaeger filed an appeal with the ASRS requesting the level income alternative option be removed and the ASRS waive three months of Arizona Department of Administration (ADOA) retiree health and dental insurance premiums. Statute only allows rescission of the LIA within six months, and the member would be required to repay the higher benefit amount. Ms. Yaeger asked for rescission after four years had passed.
- In his Recommended Decision dated January 10, 2011, Administrative Law Judge Brian Tully upheld the ASRS Director's determination that Ms. Yaeger's retirement annuity will remain a level income alternative option as she has already received the financial benefits of electing that option. Judge Tully also noted that the ASRS does not have the ability to render decisions regarding the ADOA retiree health insurance program.

Ms. Yaeger said she feels the level income alternative option is not valid, since social security benefits are not counted. She also said she was never offered affordable health insurance, and was therefore unable to pay her insurance premiums when her benefit decreased. Mr. Byers explained neither the ASRS nor ADOA can adjust premiums to accommodate a member's income.

Ms. Yaeger said her ASRS income statement reflects an inaccurate amount of income, which limits her ability to qualify for other agency assistance. Mr. Dave King, Assistant Director, Member Services Division, said statements should reflect gross income as a permanent benefit, plus level income. At age 62, a deduction should be calculated to offset the member receiving social security benefits.

Mr. Byers said staff would follow up and look into adjusting the amount of income shown on her member statement, to ensure her income is accurately and appropriately reflected.

**Motion:** Mr. Tom Manos moved to accept the ruling of the Administrative Law Judge and direct staff to look at the way income is reported for retirees electing the level income option. Mr. Larry Trachtenberg seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

## **5. Presentation, Discussion and Appropriate Action Regarding the 2011 Legislative Session**

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding ASRS 2011 legislative initiatives and legislative proposals by other organizations that affect the ASRS. After reviewing the ASRS Bill Tracker and the Speaker's House Bill 2726, Mr. Kevin McCarthy asked Ms. Sorensen how the ASRS determines its position on legislation. A discussion ensued between the Board, the Director, and staff on how to determine a position on legislation, when it is appropriate to take a position, and the role of staff and the Board in that process. It was determined that further research was warranted.

**6. Presentation, Discussion and Appropriate Action Regarding the Investment Policy Statement (IPS)**

Mr. Matson addressed the Board regarding the IPS, giving an overview of the document, highlighting objectives, constraints, philosophy, asset allocation, and fee sections of the IPS.

**Motion:** Mr. Tom Connelly moved to approve the ASRS Investment Policy Statement. Mr. Larry Trachtenberg seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**7. Presentation, Discussion and Appropriate Action Regarding Follow Up on the ASRS Opportunistic Private Investment (OPI) Strategic Plan**

Mr. Matson addressed the Board regarding the Opportunistic Private Investment (OPI) Strategic Plan. On December 17, 2010, the Board approved the OPI Strategic Plan subject to a requirement that the Plan be reviewed by the ASRS general consultant and the Real Estate and Private Equity consultants. Mr. Matson noted, as a result of the review, the Plan has been reformatted to be stylistically consistent with the other asset class strategic plans. No change has been made to the investment philosophy. Mr. Matson explained the three consultants have reviewed the revised Plan and have concluded it is appropriate and concur in its adoption.

**Motion:** Mr. Tom Connelly moved to approve the Revised Opportunistic Private Investment (OPI) Strategic Plan. Mr. Larry Trachtenberg seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

**8. Presentation, Discussion and Appropriate Action Regarding the Board Governance Policy Handbook Annual Responsibilities**

Mr. Matson addressed the Board regarding the Board Governance Policy Handbook annual responsibilities, noting it articulates the roles of the Board, committees, and staff. He said the Board Governance Policy Handbook will likely be reviewed by the Board in April. Mr. Matson said the agency has fulfilled the substantive requirements laid out in the Handbook.

**9. Presentation, Discussion and Appropriate Action Regarding the Director's Outreach Presentations**

Mr. Byers said this topic would not be discussed at this time, to accommodate a trustee's schedule.

**10. Presentation, Discussion and Appropriate Action Regarding Renewal of General Investment Consultants' Contracts**

Mr. Matson addressed the Board regarding the renewal of the general investment consultants' contracts. He explained, when contracts have been awarded for one year with the option to renew in successive years, staff has renewed the contracts. However, upon recent review of the Board Governance Policy Handbook, it appears the Board should approve such contract renewals. This approval process will be revisited when the Board Governance Policy Handbook is reviewed, likely in April.

**Motion:** Mr. Chris Harris moved to approve the renewal of the general investment consultant contracts for Callan Associates, Meketa Investment Group, Inc., Mercer Investment Consulting, NEPC, and Strategic Investment Solutions (SIS) through March 8, 2012. Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

#### **11. Presentation, Discussion and Appropriate Action Regarding Renewal of the Accounting External Financial Auditors' Contracts**

Mr. Matson addressed the Board regarding renewal of the external financial auditors' contracts. As with the previous agenda item, these contracts are also being presented to the Board for renewal.

**Motion:** Mr. Tom Connelly moved to approve the renewal of the external financial auditors' contracts for Heinfeld, Meech & Co., P.C. and RSM McGladrey, Inc., through April 30, 2012. Mr. Steve Zeman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

#### **12. Director's Report**

Mr. Matson presented the Director's Report. He had no comments and there was no discussion.

#### **13. Presentation and Discussion with Respect to Informational Updates from the Operations Committee, Investment Committee, and External Affairs Committee**

Mr. Michael Townsend, Chair, External Affairs Committee, said the next External Affairs Committee meeting will take place March 4, 2011.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place April 11, 2011 and there will be an IC/Investment Management Division lunch on April 12, 2011.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting may take place February 24, 2011, or may be rescheduled to February 25, 2011.

#### **14. New Agenda Items**

Requests were made earlier in the meeting to discuss the level income alternative option.

#### **15. Call to the Public**

No members of the public requested to speak.

#### **16. The next ASRS Board meeting is scheduled for Friday, March 18, 2011, at 8:30 a.m., at 3300 N. Central Avenue, 10<sup>th</sup> Floor Board room, Phoenix, Arizona.**

#### **17. Adjournment of the ASRS Board**

Mr. Byers adjourned the Board meeting at 10:20 a.m.

ARIZONA STATE RETIREMENT SYSTEM

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Lisa Hanneman  
Board Secretary

Date

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Paul Matson  
Director

Date